



*Andrew Junkin
CFA, CIMA, CAIA
Managing Director*

November 23, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Fixed Income – Investment Policy Revision - CLNs

Dear Anne,

You requested Wilshire's opinion with respect to Staff's proposed revisions to the Statement of Investment Policy for the Global Fixed Income Program. Specifically, Staff is including CLNs (credit linked notes) as permissible securities.

Recommendation

Wilshire recommends that the Policy Subcommittee approve the changes.

Background

In prior Investment Committee meetings, Staff reported to the Investment Committee that Staff had used CLNs to gain exposure to niche strategies within the fixed income asset class, such as distressed bank loans. At that time, Wilshire opined that we believed that the CLN structure was an appropriate way for Staff to gain access to these niche strategies. CLNs function much in the same way that CLOs (collateralized loan obligations) and CDOs (collateralized debt obligations) do – investors earn the rate of return of the underlying security positions held by the structures. However, at that time, Wilshire suggested that the Policy be amended to specifically include CLNs as approved structures within the Global Fixed Income Program. The changes to the Policy accomplish that, with no other substantive changes.

Conclusion

Wilshire believes that the changes in the Policy are appropriate and add clarity. Furthermore, we believe that these changes simply visibly state what has been represented to the Investment Committee.

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Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Ann Jain". The signature is fluid and cursive, with the first name "Ann" and last name "Jain" clearly distinguishable.